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# Corollaries of corruption and bribery on international business

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## Abstract

**Purpose** – The purpose of this paper is threefold: it examines and analyzes the extent to which corruption and bribery have become the quintessential problem of international business and economies; analyzes the effect of corruption and bribery on international business at the macro level; and recommends specific action-oriented sustainable initiatives to help mitigate corruption and bribery.

**Design/methodology/approach** – This paper has conducted an in-depth global analysis of extant literature on corruption and bribery affecting international business.

**Findings** – This paper provides a succinct analysis of corruption and bribery relevant and critical to international business. It shows that corruption undermines democracy and the rule of law; leads to violations of human rights; distorts markets; erodes the quality of life; and allows organized crime, terrorism and other threats to human security.

**Research limitations/implications** – This paper realizes that not all corruption and bribery have the same degree of impact on all countries and economies. This issue is not discussed, as it is outside the scope of the paper.

**Practical implications** – This paper serves as a good reference for international business community, anti-corruption agencies, law enforcement and for pedagogy in the classroom.

**Originality/value** – Provides a concise macro level of pertinent corruption and bribery issues useful as a learning material for international business, trade and development and corporate social responsibility.

**Keywords** Governance, International business, Corruption, Transparency, Bribery

**Paper type** Literature review

## Introduction

The fundamental objective of the tenth principle of the United Nations Global Compact (UNGC) has been the requirement of all participants to not only avoid corruption such as bribery, extortion and other forms of corruption, but also to develop policies and concrete programs to address it (UNGC, 2014). This is a noble clarion call of civil society, essential for a more transparent global economy. The principles of the UNGC have attracted a tremendous voluntary support by organizations globally in advancing the adoption and promotion of these values and principles. Corruption is not quite easy to define because of its complexity. However, this paper considers the definition by Transparency International (TI) as “the abuse of entrusted power for private gain” ([www.transparency.org/whatwedo](http://www.transparency.org/whatwedo)). This definition is not limited to only financial gain, but also non-financial advantages such as conflict of interest. Similarly, TI’s Business Principles for Countering Bribery defines bribery as:

An offer or receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something which is dishonest, illegal or a breach of trust, in the conduct of the enterprise’s business.



In the same token, the Organization of Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises define extortion as:

The solicitation of bribes is the act of asking or enticing another to commit bribery. It becomes extortion when this demand is accompanied by threats that endanger the personal integrity or the life of the private actors involved ([www.transparency.org](http://www.transparency.org)).

Corruption is considered as one of the biggest global issues of our time and the world's most talked about problem (Prevention, 2003; World Bank, 2001; Hearn, 1999; [www.transparency.org.uk/corruption/](http://www.transparency.org.uk/corruption/)), hindering international business. For example, more than two-thirds (69 per cent) of the 177 countries and territories surveyed by TI, ranked in the 2013 Index score below 50 on a scale from 0 (perceived to be highly corrupt) to 100 (perceived to be very clean), where Brazil (scored 42), China (40), India (36) and Russia (28) are clear examples. At the same time, the Arab spring countries continue to score poorly (Yemen, 18; Syria, 17 and Libya, 15), underscoring the need for comprehensive reform in those countries (Transparency International, 2013). Its effects are so pervasive that in Europe, it is noted as “breathtaking” which costs the European Union (EU) economy over €120bn (£99bn) annually (Juncker, 2014). Similarly, in Africa, the United Nations disclosed that over \$50bn is being stolen annually (Compact, UN Global, 2014; Olatunji and Daniel, 2014). This indicates that corruption is perceived to be well entrenched in the public sector in most countries.

The good examples from less corrupt economies by OECD countries, notwithstanding, the USA scored 73 in its 2012 ranking, considerably lower than many other OECD countries including Australia, Germany, the UK and Japan. The US government was one of the first countries to be proactive in dealing with corrupt business practices by creating the US Foreign Corrupt Practices Act (FCPA) and has aggressively stepped up the prosecutions of individual executives and organizations that commit such crimes. In an effort to combat corrupt business practices, a number of international organizations such as, the OECD, the International Monetary Fund and TI are teaming up with the UN in their resolve to combat corruption and bribery. A formidable tool against corruption is the creation of the United Nations Convention against Corruption (UNCAC) in 2003 and its underlying legal instrument for the tenth principle against corruption that came into effect on December 14, 2005.

The next section of the paper examines the extant literature on the nature and magnitude of the fundamental global problem of corruption and bribery that continues to hamper international business and economies. This is followed by an in-depth examination of the effect and consequences of corruption and bribery on international business, at both the micro and macro levels. Finally, as corruption and bribery has been linked to poverty and its characterization as a human rights violation, the paper offers specific action-oriented sustainable strategies to help mitigate against corruption and bribery, thereby promoting international business and economic growth and development beyond the Millennium Development Goals of 2015.

## Review of extant literature

### *Pervasiveness of corruption*

Business and corruption do not mix and one classic exemplar of corruption is bribery. Corruption distorts investment climates, undermines competition and fair trade, inflates business costs and public contracts, discourages companies from entering new markets

and thwarts competitiveness across borders (Ulman, 2013; Lalountas *et al.*, 2011; Shleifer and Vishny, 1993; Wu, 2006; Mahagaonkar, 2008). TI, a corruption watchdog, in its recent survey for 2013, noted that more than a quarter of people around the world have paid bribe within the preceding year. TI's perceived most corrupt nations in 2013 include Somalia, North Korea and Afghanistan, while Finland, Denmark and New Zealand are perceived to be the world's least corrupt countries (Table I). The tenth principle of the UNGC seems to be yielding an overwhelming global support, signaling the willingness of shared responsibility of the private sector for the challenges of eliminating corruption. The pervasive nature of corruption and bribery and its impact on economies, businesses and societies over the years necessitated the creation of UNGC. This is followed by the UNCAC, an instrument noted by the UN Secretary General, Ban Ki-moon, as "[...] the world's strongest legal instrument to build integrity and fight corruption" (Compact, UN Global, 2014, [www.un.org/sg/statements/](http://www.un.org/sg/statements/)).

The impact of corruption varies by level, nature, magnitude and location, and so is bribery. Therefore, understanding their diversity is essential, especially when it comes to recommending mitigating factors. TI's 2013 global corruption barometer paints a grim picture of the realities of corruption worldwide. TI interviewed 114,270 people in 107 countries where more than half of the people surveyed in 14 countries reported paying bribes to officials, while 11 of those 14 countries are located in Africa with Libya, Liberia and Kenya at the top as bribe givers. Denmark, Finland, Japan and Australia were tied for the least bribe-ridden country, with only 1 per cent of respondents in each country admitting to paying bribes. Even in OCED countries like the USA, TI reported that about 1 in 14 people said bribed officials; 7 per cent bribed the police; 11 per cent bribed educators; and 15 per cent bribed judges. Most Americans (76 per cent) also saw political parties as the most corrupt public institution, whereas in 36 other countries, respondents named the police as the most corrupt institution.

Miller and English (2014) noted that if an institution is itself dysfunctional, bribery could conceivably help achieve a better outcome overall. While there may be some few exceptions to Miller and English's assumption, an overwhelming number of studies, as shown below, have ample evidence of the prevalence of corruption and its negative association with international business. However, Wu (2006) tried to highlight one nature of corruption that multinational firms from corrupt countries tend to invest more in countries with similar levels of corruption. This means that corruption in both the host country and the corruption distance countries affects cross-border investment. The study further suggests that corruption distance is not as serious a deterrent of outward direct investment from more-corrupt countries as it is from less-corrupt countries.

#### *Extent of most corrupt institutions*

The extent of perceived corrupt institutions surveyed by TI in 107 countries shows a disturbing result. All countries surveyed showed an average score above average, on a scale of 1 to 5, where 1 means "not at all corrupt" and 5 means "extremely corrupt". Table II shows that political parties and the police rank as the most corrupt institutions with an average score of 3.8 and 3.7, respectively, while public officials/civil servants, parliament/legislature and the judiciary all tie at 3.6 among the most corrupt. However, although religious bodies (2.6), NGOs (2.7) and the military (2.9) are ranked as the least corrupt, education system, military and NGOs are the only institutions not seen in any country among the most corrupt (TI, 2013).

2013 Rank	Country	2012			2011			2010			2009		
		Score	Rank	Country	Score	Rank	Country	Score	Rank	Country	Score	Rank	Country
175	Somalia	8	174	Somalia	8	182	Somalia	10	178	Somalia	11	175	Somalia
175	North Korea	8	174	North Korea	8	182	North Korea	10	176	Myanmar	14	175	North Korea
175	Afghanistan	8	174	Afghanistan	8	180	Myanmar	15	176	Afghanistan	14	175	Afghanistan
174	Sudan	11	173	Sudan	11	180	Afghanistan	15	175	Iraq	15	174	Sudan
173	South Sudan	14	172	Myanmar	15	177	Uzbekistan	16	172	Uzbekistan	16	173	South Sudan
172	Libya	15	170	Uzbekistan	17	177	Turkmenistan	16	172	Turkmenistan	16	172	Libya
171	Iraq	16	170	Turkmenistan	17	177	Sudan	16	172	Sudan	16	171	Iran
168	Uzbekistan	17	169	Iraq	18	175	Iraq	18	171	Chad	17	168	Uzbekistan
168	Turkmenistan	17	165	Venezuela	19	175	Haiti	18	170	Burundi	18	168	Turkmenistan
168	Syria	17	165	Haiti	19	172	Venezuela	19	168	Equatorial Guinea	19	168	Syria
167	Yemen	18	165	Chad	19	172	Equatorial Guinea	19	168	Angola	19	167	Yemen
163	G. Bissau	19	165	Burundi	19	172	Burundi	19	168	Venezuela	19	163	Haiti
163	G. Bissau	19	163	Zimbabwe	20	168	Libya	20	164	Kyrgyzstan	20	163	G. Bissau
163	Equatorial Guinea	19	163	Equatorial Guinea	20	168	Dem. Rep. Congo	20	164	Guinea	20	163	Equatorial Guinea
163	Chad	19	160	Libya	21	168	Chad	20	164	Dem. Rep. Congo	20	163	Chad
160	Venezuela	20	160	Laos	21	168	Angola	20	154	Tajikistan	21	160	Venezuela
160	Eritrea	20	160	Dem. Rep. Congo	21	164	Yemen	21	154	Russia	21	160	Eritrea
160	Cambodia	20	157	Tajikistan	22	164	Kyrgyzstan	21	154	Papua New Guinea	21	160	Cambodia
160	Zimbabwe	21	157	Cambodia	22	164	Guinea	21	154	Laos	21	157	Zimbabwe
158	Myanmar	21	157	Angola	22	164	Cambodia	21	154	Kenya	21	157	Myanmar

Sources: *Transparency International*; <http://cpi.transparency.org/cpi/2014/results/>

**Table I.**  
The bottom 20  
countries ranked  
with highest  
perceived levels of  
corruption

**Table II.**  
Extent of most  
corrupt institutions  
by country

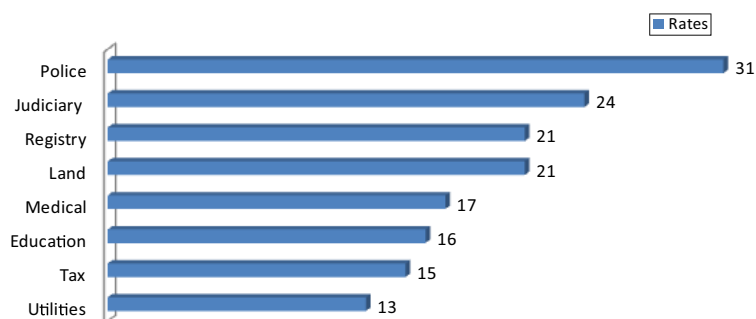
Institution/(No. of countries)	Country	Rate out of 5	
Political Parties (51)	Argentina	Slovenia	3.8
	Australia	Spain	
	Belgium	Switzerland	
	Bosnia and Herzegovina	Taiwan	
	Brazil	Thailand	
	Canada	Tunisia	
	Chile	Turkey	
	Colombia	UK	
	Croatia	United States	
	Cyprus	Uruguay	
	Czech Republic	Vanuatu	
	El Salvador	Yemen	
	Estonia		
	Bangladesh	South Africa	3.7
	Bolivia	Sri Lanka	
	Burundi	Tanzania	
	Cameroon	Thailand	
	Egypt	Uganda	
	El Salvador	Venezuela	
	Ethiopia	Vietnam	
	Ghana	Zambia	
	Indonesia	Zimbabwe	
	Afghanistan	Peru	3.6
	Albania	Serbia	
	Algeria	Slovakia	
	Armenia	Tanzania	
Azerbaijan	Ukraine	3.6	
Armenia/Civil servants (7)	Serbia	3.6	
Parliament/Legislature (7)	Taiwan		
Colombia			
Indonesia			
Albania			
Armenia			
Medical and health services (6)			
Azerbaijan			
Colombia			
Indonesia			
Albania			
Armenia			
Australia			
Egypt			
Denmark			
Algeria			
Religious bodies (3)			
Business/Private sector (3)			
	Sudan	2.6	
	Norway	2.6	

Sources: Selected data from Global Corruption Barometer (2013), [www.transparency.org/whatwedo/pub/global\\_corruption\\_barometer\\_2013](http://www.transparency.org/whatwedo/pub/global_corruption_barometer_2013)

While there is an overwhelming evidence of political corruption globally, the worst results were reported in Greece, Mexico and Nepal, where political parties scored 4.6 and, in Nigeria, 4.7. What is also disturbing and of grave concern to international business is how these political parties are funded. Understandably, as political parties require money to run their campaigns, the inherent risk here is the fact that the interests of the people and organizations that fund political parties can have a large influence on the actions of these parties, which in turn could affect international business (TI, 2013). Similarly, it is appalling to note how pervasive corruption level is in law enforcement. The police are seen as the most corrupt law-enforcement institution, where 53 per cent of people surveyed, on average, personally experienced paying bribes to the police in 36 countries. An average of 53 per cent of people personally experienced paying bribes to the police in 36 countries. From a similar line of duty is the judiciary who are also ranked among the most corrupt institutions globally. Because there is an inextricable link between the judiciary and the police, international business deals with these countries are threatened when the integrity of police, lawyers and prosecutors are lost. “When these critical law enforcement agencies cannot be trusted to act with integrity, the fundamental principles of implementing the rule of law in a country are undermined and impunity reigns” (TI, 2013, p. 17).

Responding to whether or not people paid any form of bribe to anyone in eight different services, Figure 1 indicates the percentage rates of the respondents across 95 countries. The level of bribery payments to the police ranked the highest with 31 per cent, followed by the judiciary with 24 per cent, while tax and utilities services ranked the least with 15 and 13 per cent, respectively.

Respondents from 28 OECD countries were surveyed to determine the extent of each country’s government influence – whether it is run by a few big interests looking out for themselves? Table III shows six countries that are ranked at the top with the highest percentages of government influence, Greece (83 per cent), Israel (73 per cent), Italy (70 per cent), Belgium (70 per cent), Spain (66 per cent) and the USA (64 per cent). Countries ranked with the least amount of government influence include Norway (5 per cent), Switzerland (19 per cent), Denmark (24 per cent), Finland (28 per cent), South Korea (28 per cent) and Luxembourg (39 per cent). In aggregate, more than half of the OECD countries acknowledge high government influence, which poses some risk when



Source: Barometer, Global Corruption, 2013, [www.transparency.org](http://www.transparency.org)

Figure 1.  
Global Bribery Rates  
by Service

Country	(%)
Norway	5
Switzerland	19
Denmark	24
Finland	28
Korea (South)	28
Luxembourg	39
Japan	44
New Zealand	44
Estonia	46
Czech Republic	49
Turkey	49
Australia	52
Hungary	52
Portugal	53
Canada	54
Germany	55
France	57
Slovakia	60
UK	60
Mexico	62
Chile	63
Slovenia	63
United States	64
Spain	66
Belgium	70
Italy	70
Israel	73
Greece	83

**Table III.**  
Undue influence of  
government by  
OECD countries

**Sources:** Global Corruption Barometer (2013); [www.transparency.org/whatwedo/pub/global\\_corruption\\_barometer\\_2013](http://www.transparency.org/whatwedo/pub/global_corruption_barometer_2013)

dealing with cross-border investments. A closer analysis of corruption in two extreme regions, least corrupt (Europe) and most corrupt (Africa) shades more light.

#### *State of corruption in the European Union*

The EU Home Affairs Commissioner, Cecilia Malmstroem, presented a full report on the EU Commission Report on corruption in all 28 EU member states and noted that the true cost of corruption to the EU was “probably much higher” than €120bn – the size of the EU’s annual budget. The Commission study surveyed three-quarters of Europeans and found that corruption was widespread, and that more than half of the respondents said the level of corruption had increased. In addition, 40 per cent of the businesses surveyed described corruption as an obstacle to doing business in Europe. About 64 per cent of British respondents in particular believed that corruption is widespread in the UK, compared to 74 per cent of the EU average and much higher in some countries reporting personal experience of bribery. However, in countries such as Croatia, the Czech Republic, Lithuania, Bulgaria, Romania and Greece, the responses vary between 6 and



29 per cent who had paid or been asked for a bribe. A relatively high level of bribery is experienced in Poland (15 per cent), Slovakia (14 per cent) and Hungary (13 per cent), where healthcare fraud is the most prevalent of all instances. Admitting that corruption is seriously eroding trust in democracy and draining resources from the legal economy, Malmstrom (2014) noted that, “The extent of the problem in Europe is breathtaking, although Sweden is among the countries with the least problems” (Ms Malmstroem, Sweden’s Goeteborgs-Posten daily).

The thriving of corruption in the EU continues in the midst of the EU anti-fraud agency, Olaf, which focuses on fraud and corruption affecting the EU budget. The Commission further identified some key areas of concern that demands immediate action. For example, about 20 per cent of EU’s total output (GDP) in public procurement is vulnerable to corruption; corruption is higher at local and regional levels; shortcomings of financing political parties; insufficient codes of conduct; and lack of enforcement on the existing rules on conflicts of interest. While addressing such problem areas would require better controls and integrity standards, as noted by the Commission, a lesson can also be learned from one of the trailblazer countries with the least corruption problems, Sweden. In Sweden, the role of laws on transparency and openness are key mitigating factors to combating corruption.

#### *Overview of corruption in Africa*

In Africa, more than 67 per cent of nations surveyed since 1995 by TI scored less than 50 out of a clean score of 100 (TI, 2012), and over \$50bn is stolen annually (Compact, UN Global, 2014; Olatunji and Daniel, 2014), indicating a dismal corruption problem. A plethora of research has linked corruption with poverty. For example, Eigen (2005), Chair of TI stated that “corruption is a major cause of poverty as well as a barrier to overcoming it” (Lambsdorff, 2005, p. 1). Eigen further noted that:

The two scourges feed off each other, locking their populations in a cycle of misery. Corruption must be vigorously addressed if aid is to make a real difference in freeing people from poverty (Lambsdorff, 2005, p. 1).

Poverty and corruption is a double burden that bears witness to the harsh realities of life borne by the world’s least developed countries, especially Africa, being among the poorest countries in the world. Table IV shows that nearly all African countries surveyed in the last eight years (2006-2013), attest to the CPI scores of less than 50, except Botswana, Cape Verde, Mauritius, Rwanda and Seychelles. Similarly, more than 75 per cent of all the African countries surveyed had CPI scores of less than 40, indicating a severe corruption problem, with Somalia leading as the most corrupt country for a consecutive seven years (2007-2013), followed by Sudan, Chad and Burundi, all with CPI scores of less than 20 out of 100. Prevention (2003) also acknowledged that corruption hurts the poor disproportionately by diverting funds intended for development, undermining a government’s ability to provide basic services, feeding inequality and injustice and discouraging foreign aid and investment.

Corruption in Africa is the quintessential *modus operandi* in virtually every sector, both public and private. For example, Nigeria is Africa’s largest economy and leading crude oil producer with an average annual growth rate of 6.8 per cent from 2005 to 2013 and a 2014 projected growth rate of 7.4 per cent (Vanguard Editorial, 2014). Yet, most of Nigeria’s 170 million people still live on \$2 a day. According to the World Bank

Country	2013		2012		2011		2010		2009		2008		2007		2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Botswana	64*	30	65*	30	61*	32	58*	33	56*	37	36	58	54*	38	56*	37
Cape Verde	58*	41	60*	39	55*	41	51*	45	51*	46	51*	47	49	49	–	–
Mauritius	52*	52	57*	43	51*	46	54*	39	54*	42	55*	41	47	53	51*	42
Rwanda	53*	49	53*	50	50*	49	40	66	33	89	30	102	28	111	25	121
Seychelles	54*	47	52*	51	48	50	48	49	48	54	48	55	45	57	36	63
Namibia	48	57	48	58	44	57	44	56	45	56	45	61	45	57	41	55
Ghana	46	63	45	64	39	69	41	62	39	69	39	67	37	69	33	70
Lesotho	49	55	45	64	35	77	35	78	33	89	32	92	33	84	32	79
South Africa	42	72	43	69	41	64	45	54	47	55	49	54	51	43	46	51
Sao Tome and Principe	42	72	42	72	30	100	30	101	28	111	27	121	27	118	–	–
Liberia	38	83	41	75	32	91	33	87	31	97	24	138	21	150	–	–
Tunisia	41	77	41	75	38	73	43	59	42	65	44	62	42	61	46	51
Burkina Faso	38	83	38	83	30	100	31	98	36	79	35	80	29	105	32	79
El Salvador	38	83	38	83	34	80	36	73	34	84	39	67	40	67	40	57
Malawi	37	91	37	88	30	100	34	85	33	89	28	115	27	118	27	105
Morocco	37	91	37	88	34	80	34	85	33	89	35	80	35	72	32	79
Swaziland	39	82	37	88	31	95	32	91	36	79	36	72	33	84	25	121
Zambia	38	83	37	88	32	91	30	101	30	99	28	115	26	123	26	111
Benin	36	94	36	94	30	100	28	110	29	106	31	96	27	118	25	121
Djibouti	34	94	36	94	30	100	32	91	28	111	30	102	29	105	–	–
Senegal	41	77	36	94	29	112	29	105	30	99	34	85	36	71	33	70
Gabon	34	106	35	102	30	100	28	110	29	106	31	96	33	84	30	90
Tanzania	33	111	35	102	30	100	27	116	26	126	30	102	32	94	29	93
Algeria	94	36	34	105	29	112	29	105	28	111	32	92	30	99	31	84
Gambia	28	127	34	105	35	77	32	91	29	106	19	158	23	143	25	121
Mali	28	127	34	105	28	118	27	116	28	111	31	96	27	118	28	99
Ethiopia	33	111	33	113	27	120	27	116	27	120	26	126	24	138	24	130
Niger	34	106	33	113	25	134	26	123	29	106	28	115	26	123	23	138
Egypt	32	114	32	118	29	112	31	98	28	111	28	115	29	105	33	70
Madagascar	28	127	32	118	30	100	26	123	30	99	34	85	32	94	31	84
Mauritania	30	119	31	123	24	143	23	143	25	130	28	115	26	123	31	84
Mozambique	30	119	31	123	27	120	27	116	25	130	26	126	28	111	28	99
Sierra Leone	30	119	31	123	25	134	24	134	22	146	19	158	21	150	22	142
Togo	29	123	30	128	24	143	24	134	28	111	27	121	23	143	24	130
Côte d'Ivoire	–	–	29	130	22	154	22	146	21	154	20	151	21	150	21	151
Uganda	26	140	29	130	24	143	25	127	25	130	26	126	28	111	27	105
Comoros	28	127	28	133	24	143	21	154	23	143	25	134	26	123	–	–
Kenya	27	136	27	139	22	154	21	154	22	146	21	147	21	150	22	142
Nigeria	25	144	27	139	25	134	24	134	25	130	27	121	22	147	22	142
Cameroon	25	144	26	144	25	134	22	146	22	146	23	141	24	138	23	138
Central African Republic	25	144	26	144	22	154	21	154	20	158	20	151	20	162	24	130
Congo Republic	22	154	26	144	22	154	20	164	19	162	19	158	21	150	22	142
Eritrea	20	160	25	150	25	134	26	123	26	126	26	126	28	111	29	93
Guinea-Bissau	19	163	25	150	22	154	21	154	19	162	19	158	22	147	–	–
Guinea	24	150	24	154	21	164	20	164	18	168	16	173	19	168	19	160
Angola	23	153	22	157	20	168	19	168	19	162	19	158	22	147	22	142
Dem. Rep. of the Congo	22	154	21	160	20	168	20	164	19	162	17	171	19	168	20	156

(continued)

**Table IV.**  
Corruption  
perception index of  
African countries

Table IV.

Country	2013		2012		2011		2010		2009		2008		2007		2006	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Libya	15	172	21	160	20	168	22	146	25	130	26	126	25	131	27	105
Equatorial Guinea	19	163	20	163	19	172	19	168	18	168	17	171	19	168	21	151
Zimbabwe	21	157	20	163	22	154	24	134	22	146	18	166	21	150	24	130
Burundi	21	157	19*	165	19	172	18*	170	18*	168	19*	158	25	131	24	130
Chad	19	163	19*	165	20	168	17*	171	16*	175	16*	173	18*	172	20	156
Sudan	11	174	13*	173	16*	177	16*	172	15*	176	16*	173	18*	172	20	156
Somalia	8*	175	8*	174	10*	182	11*	178	11*	180	10*	180	18*	172	-	-

**Note:** \* Indicates the highest and lowest CPI scores of respective countries

**Sources:** Compiled from various *Transparency International annual reports*; <http://cpi.transparency.org/cpi/>

President, Jim Yong Kim, Nigeria is one of the top five countries that have the largest number of poor. The top five countries, in terms of numbers of poor, are India (33 per cent of the world's poor), China (13 per cent), Nigeria (7 per cent), Bangladesh (6 per cent) and the Democratic Republic of Congo (5 per cent), which together are home to nearly 760 million of the world's poor. When the next five countries – Indonesia, Pakistan, Tanzania, Ethiopia and Kenya are added, it would encompass almost 80 per cent of the world's extreme poor. A careful observation of these countries shows that they are among the most corrupt countries with CPI scores of less than 50.

While economic growth has been vital for reducing extreme poverty and improving the lives of many poor people, it is futile without proper income distribution. The World Bank President, Kim noted that even if all countries grow at the same rate as over the past 20 years, and if the income distribution remains unchanged, world poverty will only fall by 10 per cent by 2030, from 17.7 per cent in 2010 (*Vanguard Editorial, 2014*). He further indicated that:

Growth alone is unlikely to end extreme poverty by 2030, because as extreme poverty declines, growth on its own tends to lift fewer people out of poverty. This is because, by this stage, many of the people still in extreme poverty live in situations where improving their lives are extremely difficult. Even if there is no change in inequality, the “poverty-reducing power” of economic growth is less in countries that are initially more unequal (*Vanguard Editorial, 2014*).

**Table V** confirms the positive relationship between high level of corruption and poverty, where poverty headcount ratio at \$1.25 and 2.00 a day for 2010 by the World

Rank	Region	\$1.25 (%)	\$2.00 (%)
1 (least poor)	Europe & Central Asia	0.7	2.4
2	Middle East & North Africa	2.4	12.0
3	Latin America & Caribbean	5.5	10.4
4	East Asia & Pacific	12.5	29.7
5	South Asia	31.0	66.7
6 (Poorest)	Sub-Saharan Africa	48.5	69.9

**Table V.**

Poverty headcount ratio at \$1.25 and 2.00 a day for 2010 as a % of population

**Sources:** Selected figures from *World Development Indicators*; <http://data.worldbank.org/topic/poverty>

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Development Indicators shows sub-Saharan Africa as the poorest. Consistent report by TI and many other organizations about the effect and gravity of corruption is echoed in the Middle East and North Africa, Latin America and the Caribbean, East Asia and the Pacific and South Asia.

### **Corruption and international business**

Some might think that it is inconsequential to associate corruption with business on the ground that payments for bribes are just another form of cost of doing business. However, corporate boardrooms, researchers and business press have suggested corruption as a negative factor affecting trade in cross-border investment by multinational firms (Shleifer and Vishny, 1993; Wu, 2006; Mahagaonkar, 2008; Lalountas *et al.*, 2011; Ulman, 2013). For example, the impact of corruption on cross-border investment was examined using data on foreign and local direct investments in 111 countries over a five-year period and found that corruption does indeed have a negative effect on international investment and that corruption on local direct investments is considerably weaker compared to its foreign counterpart (Zurawicki and Habib, 2010).

Admitting that corruption thwarts international business negatively, Wu (2006) wanted to ascertain whether the impact of a distance measure of corruption has any effect between host and source countries on cross-border direct investment. The result indicates that while corruption distance deters cross-border investment, it is not as serious a deterrent of outward direct investment from more-corrupt countries as it is from less-corrupt countries. The study further suggests that multinational firms with the capacity to engage in bribery can disregard this activity in transparent environments, while those firms accustomed to operating in transparent environments, find it difficult to overcome the administrative complexities in corrupt environments.

On a slightly different tangent, Cuervo-Cazurra (2013) acknowledged that while corruption in transition economies tend to show high levels of both corruption and FDI, he argued that it is not the level of corruption, but rather the type of corruption that affects FDI in transition economies. His reasoning for taking this position is that, when corruption is widely known or pervasive in a particular economy, players tend to increase the cost of investing. Therefore, corruption acts as a deterrent to FDI. On the other hand, uncertain or arbitrary corruption does not, because it becomes part of the uncertainty of operating in transition economies. That is, in transition economies, investors prefer to deal with “better the devil you don’t know”, rather than a known one (pervasive corruption). Irrespective of the nature, type, level or distance corruption is, it is evident that it remains a significant problem for investment today.

Zurawicki and Habib (2010) pointed out that macro-economic environment and the institutional framework will continue to play a critical role in FDI decisions even with respect to developing countries being targeted for traditional market seeking motives. They further noted that governments need to know the relevance and importance of factors affecting its image, and clearly corruption is one such factor. With this image building in mind, companies involved in international business must also develop a position from an ethical, competitive and risk-taking perspective. To successfully do so, an accurate idea of the impact of corruption needs to be known. It is also noted that the impact of corruption is weakened by such positive factors as openness of the economy and the political stability of the country, which are relevant for both local and foreign

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investors. Corruption should be analyzed in conjunction with other variables that characterize social environment, such that in the end, corruption may have less of significance, especially when all the positive economic and social elements are taken together for a host country. Therefore, corruption is only a barrier and not a decisive factor in realizing the full potential of a country's investment.

There is a context to which degrees of corruption varies in developing economies. For example, [Ulman \(2013\)](#) found in his study that economies with lesser degrees of corruption tend to develop faster and better than those with higher degrees and that corruption negatively affects the level of competitiveness of that economy. His findings confirm what other researchers have earlier reported ([Kundur \*et al.\*, 2004](#); [Mahagaonkar, 2008](#); [Blackburn and Gonzalo, 2009](#)). The higher degrees of corruption are exacerbated by weak governments, who in turn have weak institutions and weak agencies that produce corruption. Firms operating in such environments are discouraged from operating productively, except for foreign firms that consciously seek such countries with weak institutions to take advantage of them ([Shaw \*et al.\*, 2009](#)). Equally important from their study is the notion that lack of openness and transparency can translate into secrecy and eventually into legalized corruption, both of which negates the well-being of that economy.

An interesting observation about the effect of corruption on globalization is that presented by [Lalountas \*et al.\* \(2011\)](#). They envisaged that it is the effect of globalization on corruption and not the effect of corruption on globalization that matters and that this effect is usually different across economies. That is, the control of corruption tends to be positive only for globalization in middle- and high-income economies, but no significant impact of globalization on the control of corruption in low-income economies. Their findings are consistent with those of [Ulman \(2013\)](#) noted above, that economies with lesser degrees of corruption tend to develop faster and better than those with higher degrees where corruption negatively affects the level of competitiveness.

An inverse relationship exists between highest corruption environment, and the lowest competition as demonstrated by [Emerson \(2006\)](#). This conflicting inverse relationship is between corrupt government officials and industrial firms where government officials can command or control access to formal markets by demanding bribes. This restricts the number of new entrants into the market, thereby creating fewer firms and lesser level of competition. When competition is less, innovativeness is diminished and efficiency is weakened. The economy is therefore left with fewer firms that have corruption capabilities.

The overwhelming consensus of studies noted above support the general idea that corruption is detrimental to any economy. However, few studies such as [Blackburn and Gonzalo \(2009\)](#) think otherwise. Their empirical evidence demonstrates that corruption effect does not apply to all countries with high levels of corruption, but is dependent, largely, on which public officials decide to direct their rent-seeking behavior. Thus, it is possible for corruption to be less harmful to firm performance and growth in some highly corrupt economies. This is possible, they reckoned, especially when growth is driven endogenously by putting innovation at the core. This is possible when payment of public officials becomes the norm to fast-track service or licenses and to avoid needless bureaucratic bottlenecks. While this practice may afford some firms to leverage the system to their advantage, others who are not capable of offering the same cost of bribe may lose out.

*Trust and public confidence*

Perhaps the two most important risk factors for an investor, in my opinion, are fear and uncertainty, and corruption exacerbates both of them. When these two are present, the question of public trust and confidence is lost. For example, TI found that public confidence in UK Government concerning corruption scandals is eroding according to 90 per cent of respondents who believe that the government is run by a few big entities acting in their own interest, especially about links between politics and big business of the country's major institutions, such as the police. TI's campaigns in the UK following the payment of a bribe by a UK branch company, Innospec, lead to the change in the UK Bribery Act in 2011. The company paid about £505m bribe to Indonesian officials to block a ban on Tetraethyl lead, a poisonous chemical used in petrol, proven to stunt the mental development of children ([www.transparency.org.uk/corruption/why-it-matters](http://www.transparency.org.uk/corruption/why-it-matters)). One of the four new offences introduced was the crime of bribing a foreign public official, consistent with the US FCPA. While most British and other OECD companies do not involve in corrupt practices, the few that do, used bribery to obtain contracts overseas to increase their revenue. It is the poor who is impacted the hardest by corruption and bribery and often have no option to walk away, but live in a society entrenched by bribery payments from Western companies.

The issue of trust is crucial, irrespective of the business environment (clean or corrupt). To corroborate the link between control of corruption and trust, [Anokhin and Schulze \(2009\)](#) indicated that control of corruption does actually boost trust and reliability in institutions, which in turn provides a healthy environment for entrepreneurship and innovation to thrive. Consistent with this line of argument is the study by [Ngobo and Fouda \(2012\)](#) concerning the relationship between good governance and competitiveness in terms of firm's profitability in one of the most corrupt African economies. Their study confirms earlier researches that good governance translates into reduced uncertainty, transaction and production costs, thereby boosting competition, performance and productivity. When there is lack of good governance, trust and confidence in any business setting or institution, it creates a conducive environment for breeding corruption and has the tendency to impede the potential for trade, productivity and investment.

**Prescription for business integrity**

Extant literature demonstrates that control of corruption enables innovation, entrepreneurship, competitiveness and investments for growth and development. However, corruption and bribery thrive when institutional qualities are weak both at the formal and informal levels. In the spirit of corporate social responsibility, sustainability and citizenship, [Gonzalez-Perez \(2013\)](#) points to the fundamental requirements of strategies to balance ethical, social and environmental concerns with corporate requirements, essential for international business. A number of organizations and countries have been proactive in fighting corruption and bribery globally. For example, the UNCAC, the world's strongest legal instrument aimed at building integrity and fighting corruption, created an International Anti-Corruption Day in 2009 to bring awareness about the demise of corruption. UNCAC advocates for businesses to adopt anti-corruption measures in line with the Convention. A thematic program on action against corruption, economic fraud and identity-related crime is also provided by United Nations Office on Drugs and Crime (UNODC), which acts as a catalyst and a resource to

help states, especially those with vulnerable developing or transitional economies, to effectively implement the provisions of the UNCAC through practical assistance in building effective anti-corruption policies and institutions.

The US FCPA was enacted in 1977 (and subsequent amendments) to prevent and criminalize businesses and individual managers involved in illegal activities such as bribing foreign officials, political parties and governments to secure or maintain contracts overseas (Vanasco, 1999). The USA is the first country to pioneer such a legislation that impacted foreign trade, international law and code of ethics. Jurisdictions outside the USA have also exhibited a renewed interest in developing and enforcing similar laws (Huskins, 2008). For example, the UK Bribery Act 2010 (UKBA) was introduced to update and enhance UK law on bribery including foreign bribery to address better the requirements of the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It is now among the strictest legislation internationally on bribery. Notably, it introduces a new strict liability offence for companies and partnerships of failing to prevent bribery (Trautman and Altenbaumer-Price, 2013).

One of the positive outcomes of the enhanced UK Bribery Act is the creation of UK Proceeds of Crime Act (POCA) where the UK High Court granted POCA a civil recovery order over an individual's assets (including money and property outside the UK) which it found to have been derived from money laundering, despite no criminal conviction against the individual (Dowling, 2014; [www.bailii.org/ew/cases/EWHC/QB/2014/2722.html](http://www.bailii.org/ew/cases/EWHC/QB/2014/2722.html)). Further, Business Integrity Forum, a network of major international companies run by TI, UK fosters best practice tool and guidance such as training and advisory services to UK-based companies, individuals and institutions to help raise standards against corruption globally and to improve corporate performance (Business Integrity Forum, 2014, [info@transparency.org.uk](mailto:info@transparency.org.uk)).

For policy implications, lessons can also be learned on outward FDI from OECD countries with lower levels of corruption. Wei (2000) posits that corruption is more problematic for enterprises from transparent home countries investing in a host corrupt country than it is for enterprises from corrupt home countries investing in a host transparent country. Therefore, if multinational firms from corrupt countries are more likely to engage in bribery, laws prohibiting such behavior will have a profound impact on overseas investment from corrupt countries because these laws hinder outward FDI from corrupt countries. In contrast, the same laws exert less of an impact on outward FDI from transparent countries, e.g. OECD countries, because their multinational firms tend to invest in countries with less corruption and engage in less bribery overseas.

### **Practical steps for sustainable action**

To have a corruption-free economy, anywhere is ideal, but not realistic. This paper offers practical mitigating initiatives that have the potential to not only reduce corruption but also one that is sustainable when diligently implemented:

- Require organizations to join and sign a memorandum of understanding with anti-corruption agencies such as UNCAC, OECD, TI, World Bank, USCPA, UKBA, and EU Anti-Fraud Agency and Olaf.
- Require organizations to implement strict tone-at-the-top as code of business conduct and good governance that is measurable.
- Establish an open and transparent bidding system of all government contracts.

- Remove all forms of immunity shielding any government official from prosecution while in office.
- Establish and sign a memorandum of understanding with “safe heaven” nations such as OECD countries to turn over corrupt officials and their loot for prosecution.
- Ensure a higher perception that corrupt officials will be caught and prosecuted to the fullest extent of the law.
- Ban any corrupt government official from running for any public office for life.
- Develop a strong hardware (infrastructure) necessary for monitoring and assessing governance initiatives.
- Require a transparent and honest disclosure of pertinent public financial information online.
- Provide a safe and secure means of whistle-blowing mechanism to report corruption without fear of retaliation.
- Institute an autonomous judicial system, independent of any political government interference to deal with corrupt officials, individuals and organizations.
- Create a continuous awareness/training program to educate citizens and employees in every organization about the evils of corruption and how to prevent it.
- Have an independent continuous audit to report the effectiveness and efficiency of governance issues.

### **Conclusion**

Corruption and bribery undermine democracy and the rule of law in any society. It obliterates the principle of fair competition, entrenches bad governance, hinders poverty alleviation efforts, erodes the quality of life, ruins trust and integrity, distorts markets, contributes to instability and human rights abuses, allows organized crime and terrorism and other threats to human security. Corruption is therefore one of the biggest threats to international business and an obstacle to the development and achievement of the Millennium Development Goals beyond 2015. A practical action-oriented and sustainable initiative is prescribed to mitigate against corruption and bribery, conducive for international business to thrive.

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